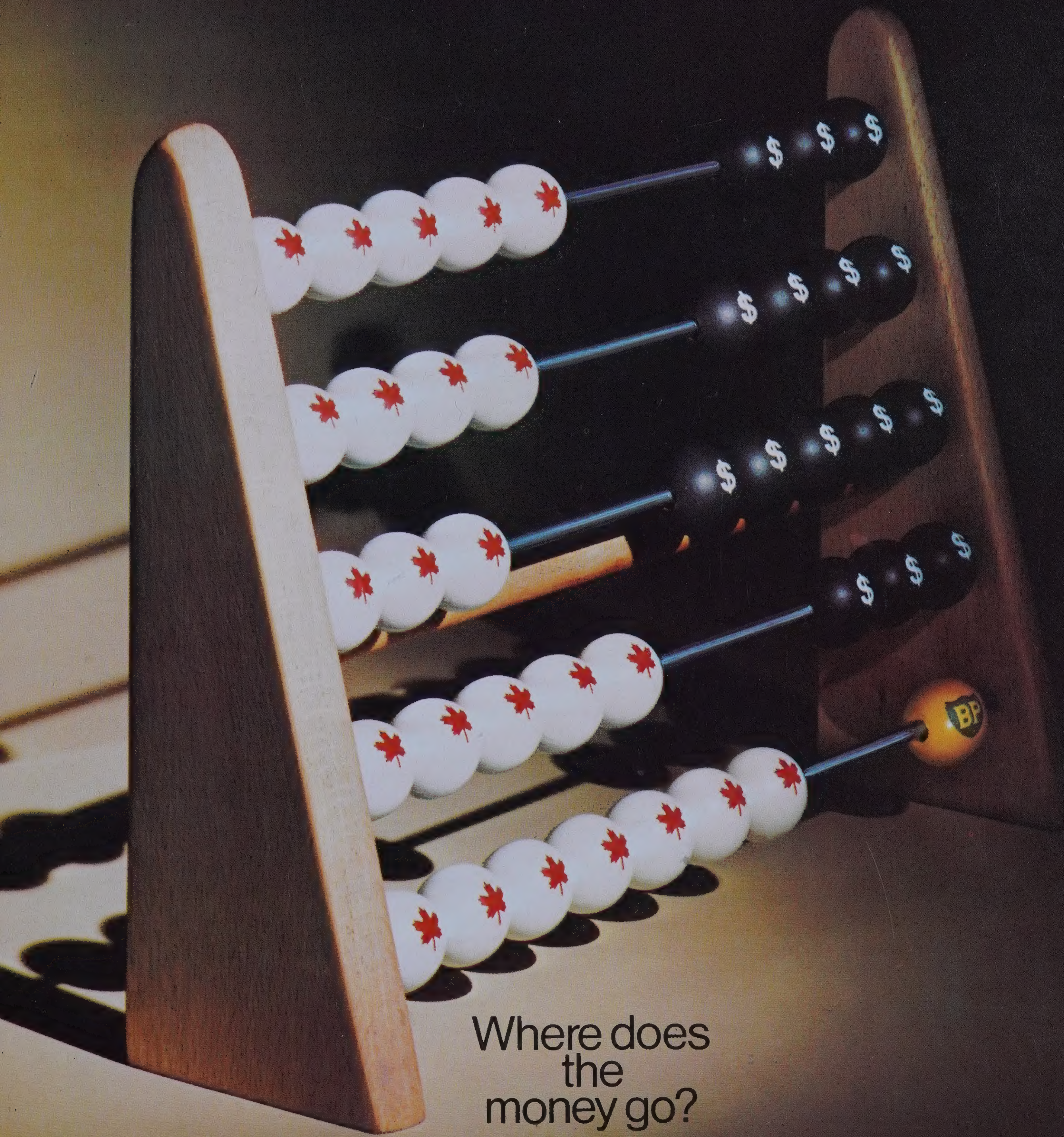
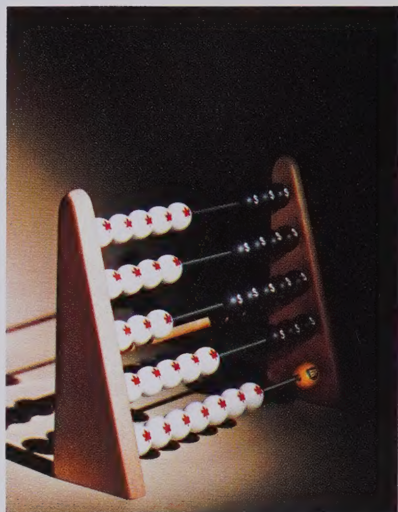
BP Canada Annual Report 1975



Where does the money go?

Where *does* the money go?



The beads on the abacus represent the disposition of 80 cents paid for a gallon of BP Regular gasoline at a Toronto service station in 1975.

GOVERNMENTS' SHARE (Federal and Provincial):

Provincial sales tax	**19.0¢**	
Federal sales tax	**3.9**	
Federal excise tax	**10.0**	
Royalties and income taxes on crude oil, at average BP rate	**15.1**	
Corporate income tax on refining and marketing income	**0.7**	
		48.7¢

DEALER'S SHARE AND BP'S COSTS:

Dealer gross margin at time of sale	**7.5¢**	
Cost of the crude oil excluding royalties and income taxes	**13.2**	
Average cost of processing it into products	**2.9**	
Marketing, distributing, operating & administrative expenses	**6.7**	
		30.3¢

BP'S PROFIT from refining and marketing this gallon of gasoline in Toronto:

1.0¢

Surveys show that many people still believe enough money is available from corporate profits to find and bring out the oil and gas required to lessen Canada's growing dependence on foreign sources.

Yet, even when averaged over all its sales—crude oil, natural gas and products—BP'S NET PROFIT IN 1975 WAS UNDER ONE AND TWO-THIRDS CENTS PER GALLON.

Of this profit, SHAREHOLDERS received about half a cent, most of which stayed in Canada. The remainder was REINVESTED IN BP CANADA'S OPERATIONS across the country.

BP Canada Annual Report 1975

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Highlights for the year 1975

with 1974 figures shown on a comparable basis

BP Canada Limited and Subsidiaries

Financial	1975	1974	% change
	(Thousands of dollars unless otherwise stated)		
Revenue—sales and services	$550,465	$464,808	+18.4
Net revenue	493,149	414,550	+19.0
Total funds derived from operations	65,060	80,834	−19.5
Net income for the year	30,480	39,574	−23.0
Net income per share (dollars)	1.45	1.88	−23.0
Return on average capital employed (percentage)	8.41	11.49	−26.8
Working capital at end of year	110,386	93,921	+17.5
Expenditures on property, plant, equipment and research costs	60,264	66,870	− 9.9
Long term debt at end of year	84,436	94,512	−10.7
Shareholders' equity at end of year	309,824	287,853	+ 7.6
Total assets at end of year	552,500	554,923	− 0.4

Operating	1975	1974	% change
	(Barrels per day)		
Refined product sales	104,310	97,164	+ 7.4
Crude oil processed at refineries	121,693	106,921	+13.8
Refined product purchased from another refiner	1,797	13,225	−86.4
Gross sales of crude oil and natural gas liquids	22,827	28,492	−19.9
	(Thousands of cubic feet per day)		
Gross sales of natural gas	100,945	101,043	− 0.1

Report to the Shareholders

After the shock in 1974 of an almost unimaginable new level of oil prices, 1975 was characterized by the efforts of consuming countries to adjust to these costs and by a growing recognition by producers that they had pushed things about as far as they could go.

While the process continued whereby the oil exporting countries acquired growing participation in the oil producing companies or, in some cases, took them over entirely, world crude oil prices remained relatively stable, advancing once only by about 10% in October. These new high energy costs in a world experiencing the most severe recession since the 1930's, resulted in an unprecedented reduction in oil consumption and a surplus of all types of petroleum products; refineries, tankers and production facilities which had been put in place to serve a much higher level of demand were grievously under-utilized.

Demand in Canada fell, too, but to a much lesser extent, by about 2%. Nevertheless, the pressure of surplus products on the market drove the prices of most petroleum products to well below the levels permitted by the Federal Government with a consequent reduction in margins. Two other factors which hit your Company particularly hard during 1975 were the changed basis for Import Compensation and the action of the Government of Ontario in "freezing" the prices of petroleum products for a period of 4½ months after the price of domestic crude oil had been advanced by the Federal Government by $1.50 per barrel on July 1.

Under the Import Compensation Program as originally conceived, importers of crude oil were to be compensated by an amount equal to the actual increase in their costs for imported crude oil over and above those permitted to be recovered from the domestic market. On July 1, the Federal Government changed the system to one in which a single, and somewhat arbitrarily determined, amount per barrel was to be paid to each importer irrespective of his actual cost increase. This change bore harshly on importers from the eastern hemisphere, leaving importers from Venezuela relatively unaffected. In your Company's case, it is computed to have increased the net cost of our imported crude oil by $1 per barrel, or about 3 cents a gallon.

On September 12, I wrote to shareholders advising them of the disastrous effect on refiners in Ontario of the extended price freeze imposed by the Government of Ontario. This arbitrary and irresponsible action is estimated to have deprived your Company, which does about 60% of its business in Ontario, of over $8 million in revenue. These two government actions together are estimated to have reduced the Company's net income in 1975 by $7 million.

In the course of the year, there was a distinct improvement in the climate for exploration and production in the "traditional" areas, particularly in Alberta and British Columbia. Both levels of government belatedly recognized that, in their zeal to prevent the oil industry earning any "unexpected" profits from the rise in oil prices, they were in serious danger of permanently damaging the industry at the very time when the country needed an all-out exploration effort.

The federal and provincial governments drew back somewhat from the excessively high levels of tax and royalty "take" established in 1974. At the same time, steps were taken to advance the price of gas closer to parity with crude oil, on a commodity value basis. The Company's receipts per barrel of crude oil produced, after royalties and taxes, rose to $2.05 per barrel, an increase of 81 cents over 1974. However, the resultant revenue, whilst substantially higher than in 1974, was adversely affected by the Federal Government's export policies which led to a 20% decline in crude oil production. Average receipts from natural gas sales more than doubled to 23 cents per thousand cubic feet, after royalties and taxes.

Exploration continued actively both on the Labrador Shelf and in the traditional areas of Western Canada. In the former area, the BP Columbia Bonavista well was a disappointment and was abandoned after an expenditure of $15.9 million. A second well was started at Indian Harbour in the northern block of the Company's holdings but was unable to reach the target depth of 12,000 feet before the onset of winter. Work will be resumed on this well as and when a suitable drilling rig can be obtained.

In Western Canada a number of successful gas wells were drilled in the Alberta and British Columbia foothills and it is hoped that these will lead to the development of major additions to the Company's gas reserves and revenues.

The situation in regard to Federal lands is less satisfactory. The Ottawa departments appear unable to appreciate the immense difficulties and costs inherent in exploring the Frontier areas and the urgent need—nearly six years have now passed since Land Order 1-1961 was withdrawn—to come up with new regulations which will really stimulate exploration activity. At the same time, the matter of the sharing of royalty income with the Atlantic Provinces in the east coast offshore areas remains unresolved and, in the case of offshore Newfoundland, the Federal government's jurisdiction is still disputed by the Province.

Your Company, with the help of experienced consultants, completed an extensive study on the Company's property in the Athabasca Tar Sands. While demonstrating the technical feasibility of a project to commence operations in the mid-1980's, this gave little encouragement for proceeding to a commercial development on account of high costs of construction and operation and the long lead time. The inherently poor economics are made worse by uncertainties over royalties and government policies. If this

project is at all representative of others in the area, it is hard to visualize any new mining projects proceeding without a great deal more support and encouragement from governments than has yet been indicated.

We are also engaged in the design of a large pilot project to test new concepts for producing oil commercially from the heavy oil deposits in the Cold Lake area of Alberta. Application has been made to the Alberta Oil Sands Technical Research Authority (AOSTRA) for financial assistance with this major research undertaking.

Looking to the future, it is hard to see Canada again becoming self-sufficient in oil as she was for a brief period in the early 1970's. That is not, however, to say that she should not aim to reduce dependence on imports to as low a level as reasonably possible. Such an objective requires both that the industry be offered the prospect of earning good rewards for the risks it has to undertake in exploring progressively more difficult areas, and that it be permitted to earn sufficient current income to finance such exploration. Both these criteria have to be met if we are to avoid a further decline of the already low life-index of our oil reserves in Canada, let alone improve it.

It is probably best for Canada that oil prices be moved steadily and rapidly to international levels. Such a progression will, however, only be helpful in providing new oil and gas reserves if the industry is permitted to retain additional revenues from these higher prices. Nothing could be more futile than a repetition of last year's situation where several provinces intervened to drain off from the industry the increased revenues it was intended to receive. At the time of writing there would appear to be a real risk of this scenario being repeated.

In the course of the year, Mr. P. G. Cazalet, a Director of BP Trading Limited of London, England, resigned from the Board of Directors following a reassignment of his duties and was replaced by Mr. W. A. L. Manson who is the Director of BP Trading responsible for the Western Hemisphere.

Mr. P. I. Walters, a Managing Director of The British Petroleum Company Limited, will not be standing for re-election to the Board at the Annual Meeting. We are very pleased that Sir Eric Drake, C.B.E., who recently retired as Chairman of The British Petroleum Company Limited, has consented to stand for election in his place.

It is with great regret that I record the death of Mr. Graham F. Towers in December 1975. Mr. Towers, after a distinguished career in private banking, in 1934 became the first Governor of the Bank of Canada and served in this capacity for 20 years. Following his retirement, we were most fortunate in obtaining his services as Chairman of the Board of the BP group in Canada. For over 10 years he played a major role in guiding the group's fortunes as it established itself in the Canadian market.

In conclusion, I want to thank our staff for their hard work and steady devotion to the interests of your Company when, so frequently, the tide of public opinion seemed to be running against them for reasons these good people found hard to comprehend.

D. F. Mitchell
President
March 11, 1976

From a supply vessel, 30-foot lengths of drill pipe are loaded onto the drillship *Havdrill,* some 500 miles north of St. John's, Newfoundland. During 1975 BP's offshore search for vitally needed oil and gas resources continued, but without significant hydrocarbon shows. The cost of drilling an offshore well is measured in millions of dollars, rather than the few hundreds of thousands needed to drill one in most of the traditional exploration areas of Western Canada.

Exploration & Production

Where does the money go?

Mostly to governments. In 1975, the average selling price of crude oil produced by BP was $7.02 per barrel. 71% went to governments in the form of royalties and income taxes, leaving $2.05 to cover costs of production, administration, financing and to help pay for new exploration.

Production and Sales
Along with other Canadian producers, the Company's crude oil production declined in 1975 as a result of falling United States demand in the face of the high price of Canadian crude oil, inclusive of the export tax, and the volumetric restrictions on exports imposed by the National Energy Board. The Company's production of crude oil and gas liquids averaged 22,827 barrels per day, 19.9% lower than in 1974.

On July 1, crude oil prices were permitted to increase by $1.50 per barrel to a base price of $8.00 at Edmonton. Of this increase 31 cents was retained by the Company.

Sales of natural gas were 100.9 million cubic feet per day, virtually unchanged from 1974. The average price received in 1975 was 56 cents per thousand cubic feet compared with 21 cents in 1974. After royalties and income taxes, the Company retained 23 cents per thousand cubic feet to cover the costs of production, administration, financing and to help pay for exploration for new reserves.

On November 1, the wellhead price of gas in Alberta was increased to reflect a Toronto city gate price of $1.25 per thousand cubic feet and an export price of $1.60. It is estimated that, if maintained throughout 1976, this will result in the amount retained by the Company rising to approximately 30 cents per thousand cubic feet in the current year.

Sulphur sales declined by 27.6% to 79,390 long tons, reflecting a worldwide surplus of this commodity. Although prices in both the domestic and international markets were softening at year end, the average price received in 1975 was substantially higher than in 1974, being $22.75 compared to $14.94 per ton.

Frontier Areas
BP continued its frontier exploration program in 1975 despite uncertainty over Federal land regulations and disputed jurisdictions. Under the influence of these continuing uncertainties, the Company's exploration program on Federal lands will be on a somewhat reduced scale in the current year.

BP Columbia Bonavista C-99, about 130 miles northeast of St. John's, Newfoundland, was abandoned at 12,398 feet in mid-August after failing to find significant hydrocarbon showings. This well was drilled by the drillship *Havdrill* in 1,100 feet of water, in the course of which equipment was successfully recovered from the ocean floor in the deepest operational dive ever undertaken outside a diving bell.

From that location the drillship moved 375 miles northwest, to BP Columbia et al Indian Harbour M-52. Drilling was suspended in October at 7,753 feet because of severe storms and the approaching winter season; the well will be deepened when a suitable drillship is available. Over $25 million has been spent on this project by the Company's partners who have now earned a 40% interest in 12,641,000 offshore acres, and a 10% interest in an additional 1,031,000 acres.

In the Arctic Islands, Panarctic drilled three wells on acreage in which BP has a 3.3% interest, although the Company chose not to participate in the well costs. The Mocklin Point well on Ellef Ringnes Island was abandoned, as was the Pym Point well on Cameron Island. The Bent Horn F-72 well, also on Cameron Island, was completed as a Devonian oil well with approximately 130 feet of gross pay. Further drilling is proposed by Panarctic in the Bent Horn area; in addition, an exploratory well is proposed on nearby Vanier Island, where BP has a 31.3% interest.

At Great Bear Lake, N.W.T., four unsuccessful wells were drilled during the 1974-75 winter. A number of other structures remain to be tested but it is not anticipated that this work will be undertaken during the current year.

Western Canada
In northeastern Alberta, oil discoveries were made at Hunt Creek and Loon Lake. Additional acreage has been acquired and follow-up drilling is being undertaken during the current winter season.

In the Peace River area of northwestern Alberta, the Company has acquired additional acreage and now holds interests in approximately 400,000 acres. This continues to be one of the most active gas exploration areas in the province. Three gas discoveries were made on BP acreage during the year and further exploration and development drilling is under consideration.

In west central Alberta, the Obed 10-5 exploratory well in which BP has a 50% interest was completed as a Viking gas discovery testing at a rate of 5 million cubic feet per day. Additional acreage has been acquired and further drilling is in progress.

At Stolberg, in the central foothills area of Alberta, the Stolberg 10-29 development gas well in which BP has a 20% interest was successfully completed and plans for producing from this field are being developed.

In the Alderson shallow gas area of southeastern Alberta, 20 gas development wells were completed in which BP holds a 33.5% interest. This area was unitized and production commenced in early November.

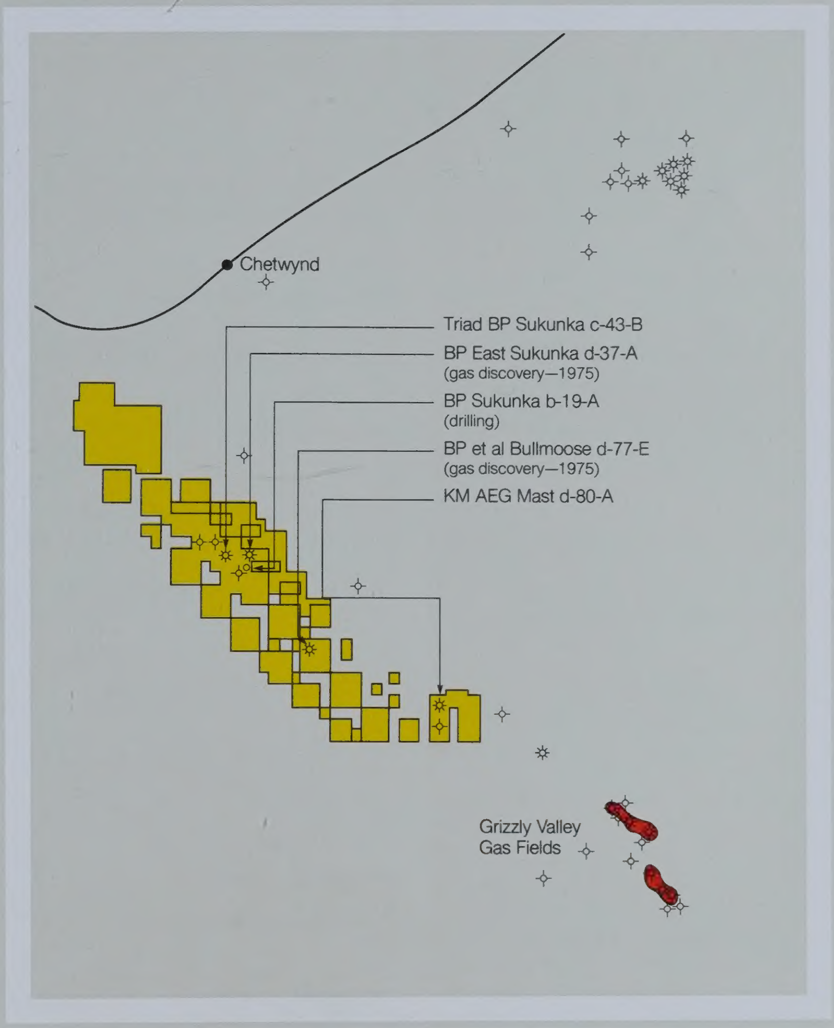
In British Columbia, exploration activity in 1975 was lower than had been planned because of unfavourable royalty and tax regulations. Nevertheless, the Company carried out a limited drilling program and made three significant gas discoveries. Toward year end, changes in regulations improved the climate for exploration and development and an active program is planned for 1976.
The Tenaka c-20-K exploratory well in which BP has a 25% interest discovered gas and was tested at 13 million cubic feet per day. BP has interests varying from 25% to 50% in acreage surrounding this discovery; further drilling is planned during 1976.

Significant progress was made in the Monkman foothills area where BP

Monkman Area, British Columbia
One inch = 19.5 miles

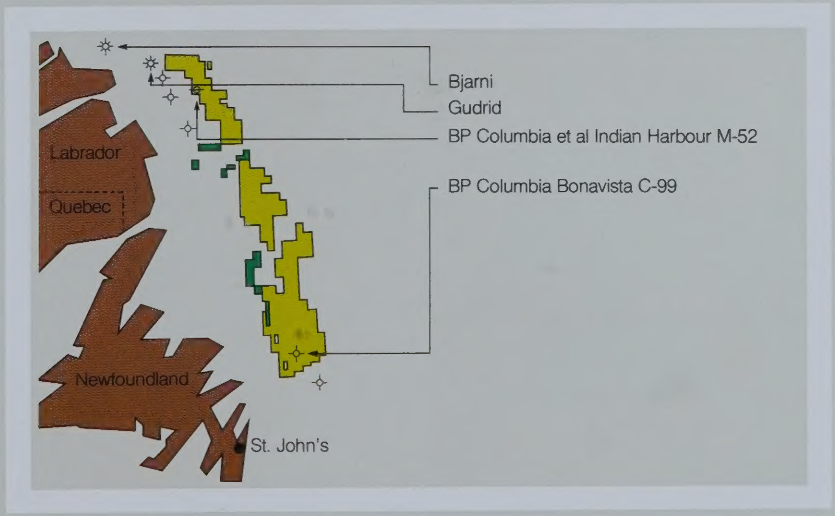
- BP Canada interest
- Gas Field
- Gas Well
- Abandoned Well
- BP Location
- West Coast Gas Transmission Line

Centre of BP acreage about 65 miles southwest of Dawson Creek, B.C.



East Coast Offshore
One inch = 246 miles

- BP Canada 60% interest
- BP Canada 15% interest
- Gas Discovery
- Abandoned Well
- Suspended Well



Exploration & Production
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has major interests in 191,000 acres. Substantial gas flows were obtained on a production test at the BP et al Bullmoose d-77-E well, on a structure south of the BP Sukunka gas discovery of several years ago. The BP East Sukunka d-37-A well, to the east of the original Sukunka discovery, also discovered gas in the Triassic. BP has 50% interest in the Bullmoose acreage and 100% interest in the Sukunka and East Sukunka features. A stepout well on the Sukunka structure is drilling and active development of the area will continue.

Non-Conventional Oil
An extensive study was completed in 1975 covering the Company's 50,000-acre lease in the surface mining area of the Athabasca Tar Sands. This served to confirm the technical feasibility of development but the poor economics give little encouragement to proceeding with a development project at this time.
In the Cold Lake heavy oil area, the Company holds 126,000 lease acres. Experimental steam-flood projects were undertaken on this acreage in earlier years and several evaluation wells were drilled in 1974 and 1975. In the course of the year, research and design commenced for a major pilot project on BP 100% acreage; during 1976 a decision will be taken whether to proceed with this project which is estimated to cost some $30 million.

Coal
A further 42,000 acres of coal leases were acquired and application was made for an additional 43,000 acres in the Pigeon Lake, Fox Creek and Grande Prairie areas of Alberta. Geological studies and core hole drilling were conducted on the Company's properties throughout the year, but exploration activities were limited in the absence of firm provincial policies for exploration of Alberta's coal reserves.

Minerals
Exploration for uranium and base metals continued in British Columbia, the Yukon, the Northwest Territories, Alberta, Ontario and Newfoundland. Initial diamond drilling on the Toodoggone area in north central British Columbia resulted in several interesting base metal showings.

Reserves
(Gross before royalty)

	Oil and Natural Gas Liquids Barrels	Natural Gas Billions of cubic feet
Proven Reserves at December 31, 1974	107,197,200	856.266
Add:		
Discoveries and extensions	373,500	39.063
Net revisions to existing reserves	1,127,800	4.946
	108,698,500	900.275
Less—Production during 1975	8,331,700	36.845
Proven Reserves at December 31, 1975	100,366,800	863.430
Location of Reserves by Province:		
Alberta	81,534,700	754.478
Saskatchewan	16,481,800	2.896
British Columbia	2,350,300	106.056
	100,366,800	863.430

Gross Sales—Crude Oil and Natural Gas Liquids

	1975 Barrels Per Day	1974 Barrels Per Day
Alberta		
Redwater	3,293	5,176
Pembina	2,526	2,838
Chauvin	2,401	2,901
Swan Hills	2,057	2,119
South Sturgeon	1,559	1,327
Kaybob South	1,515	1,779
Inverness	597	648
Others	3,594	4,099
Total Alberta	17,542	20,887
British Columbia		
Beatton River	853	1,110
Others	43	51
Total British Columbia	896	1,161
Saskatchewan		
Dollard	954	2,028
Kenosee	584	789
Steelman	541	617
Weyburn	497	615
Others	1,813	2,395
Total Saskatchewan	4,389	6,444
Total all Areas	22,827	28,492

Gross Sales—Natural Gas

	1975 Million Cubic Feet Per Day	1974 Million Cubic Feet Per Day
Alberta		
Edson	40.9	45.2
Craigend	8.8	10.0
Pembina	5.0	5.1
Sullivan Lake	4.2	.9
Cessford	4.0	3.7
East Calgary	3.7	3.4
Okotoks	3.3	3.4
Kaybob Notikewin	2.8	3.4
Monogram Unit	2.5	—
Kaybob South	2.3	1.7
Bellis	2.2	2.9
Others	18.8	19.3
Total Alberta	98.5	99.0
Other Provinces	2.4	2.0
Total all Areas	100.9	101.0

Summary of Drilling

	Oil	Gas	Dry	Other
Exploratory wells				
Working interest	3	6	22	1
Farmout (interest retained)		4	9	
Wells adjacent to lands optioned (no direct interest)	1			
Development wells				
Working interest	6	44	3	1
Farmout (interest retained)	1	4	5	

Land Summary

	December 31, 1975		December 31, 1974	
	Gross	Net	Gross	Net
Leases				
Alberta	1,743,492	970,776	1,914,965	1,152,931
British Columbia	229,846	210,474	294,375	276,667
Saskatchewan	126,967	59,322	145,593	67,347
Ontario	26,254	11,006	26,254	11,006
Northwest Territories	41,940	9,228	68,422	19,158
	2,168,499	1,260,806	2,449,609	1,527,109
Reservations & Permits				
Alberta	2,625,028	1,385,695	2,631,428	1,383,295
British Columbia	948,026	373,964	896,524	333,191
Northwest Territories	3,797,723	1,084,264	3,876,689	673,668
Arctic Islands	6,147,189	967,693	6,588,059	1,025,458
East Coast	14,857,943	8,340,509	14,857,943	13,430,032
North Sea—Great Britain	51,323	5,774	51,323	5,774
	28,427,232	12,157,899	28,901,966	16,851,418
Major Options				
Alberta	9,920	2,480	110,000	47,495
British Columbia	67,343	15,702	100,765	21,272
East Coast	—	—	—	216,506
Northwest Territories	—	—	—	616,417
	77,263	18,182	210,765	901,690
Total P. & N.G. Acreage	30,672,994	13,436,887	31,562,340	19,280,217
Coal Acreage	145,133	91,696	124,531	58,187
Mineral Acreage	1,436,500	1,434,950	1,716,770	1,716,770

Exploration & Production
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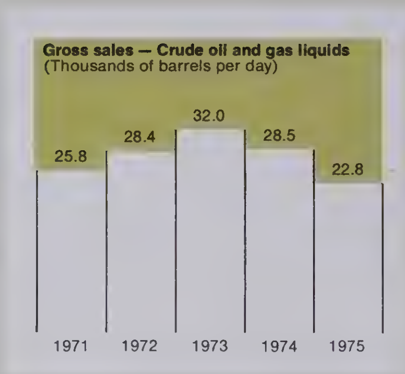
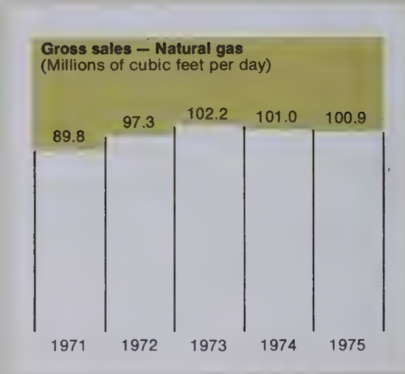
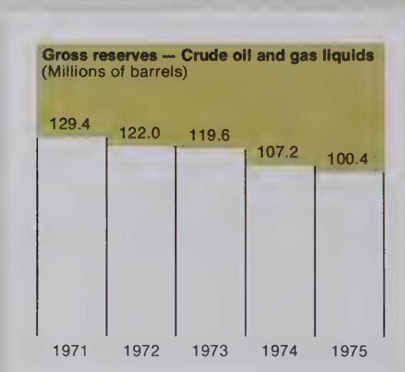
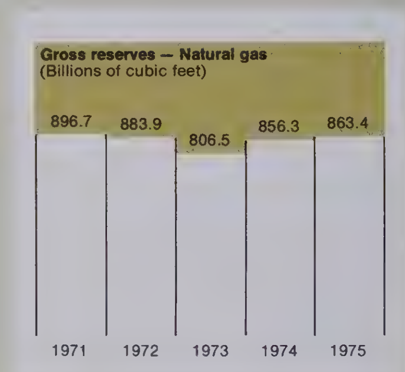
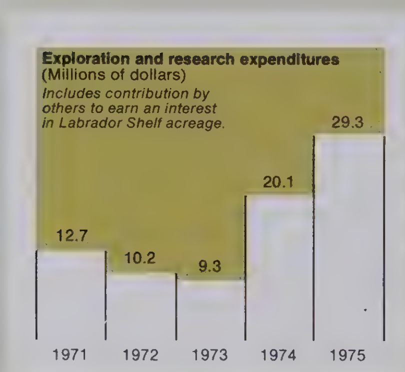
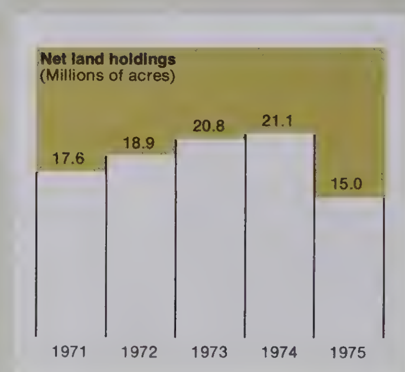












Supply & Refining

Where does the money go?

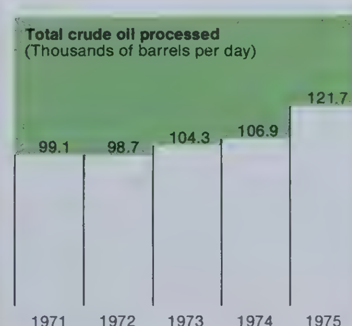
The cost of the crude oil processed for BP at the Company's refineries in 1975 was $371 million which was reduced by $82 million import compensation. The cost of refining this crude oil was $35 million.

Domestic crudé oil prices continued to be set by government at well below international levels and importers of crude oil were compensated by the Federal Government for that portion of the cost of the more expensive overseas crude oil which was not permitted to be recovered from the market.

On July 1, 1975, the price of Canadian crude oil was permitted to rise by $1.50 to a basic price of $8.00 per barrel at Edmonton which leaves it some $4 below the international price level. On October 1, the Organization of Petroleum Exporting Countries (OPEC) raised crude oil prices by a further 10%; Federal compensation was increased by a similar amount in compliance with the government's policy of maintaining the prices of petroleum products at a common level across Canada, adjusted only for transportation differences.

Throughput at the Company's refineries averaged a record 121,700 barrels per day, reflecting almost a full year's operation of the expanded Trafalgar Refinery. Throughput at Montreal Refinery, however, was somewhat lower than in recent years largely due to a decline in the demand for heavy fuel oil.

At Montreal Refinery modifications were made to the upgrading plant to improve the yield of gasoline. Construction was also started on a new plant to separate liquid petroleum gases for sale as petrochemical feedstock. A new stripping plant was commissioned to improve the quality of the refinery water effluent.



At Trafalgar Refinery the last of several new process units, which increased the refinery's capacity from 38,000 to 78,000 barrels per day, was commissioned in early 1975.

Guests approach Trafalgar Refinery's new process area on a guided tour following the official opening of this $65 million expansion, by the Hon. Dennis R. Timbrell, Minister of Energy, Ontario. Doubling of Trafalgar's capacity has made it capable of meeting all BP's market requirements in Ontario.

Opposite:

Ontario Ministry of Health ambulance drivers test tire adhesion on a BP Skid Control School "skid pan". During the year BP's two schools trained 1,200 drivers in the specialized techniques needed to avoid accidents.

Before and after rehabilitation, this service station at Collingwood, Ontario shows the dramatic improvement in appearance which Eric Eints' innovative designs have made possible at low cost. More than 125 service stations have been modernized in this way.

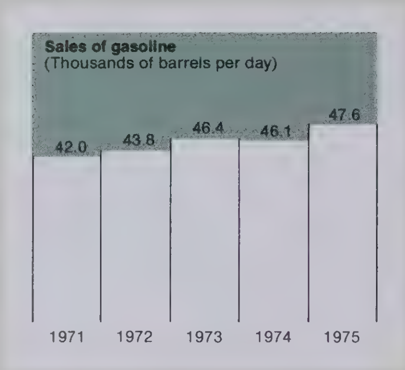
Marketing

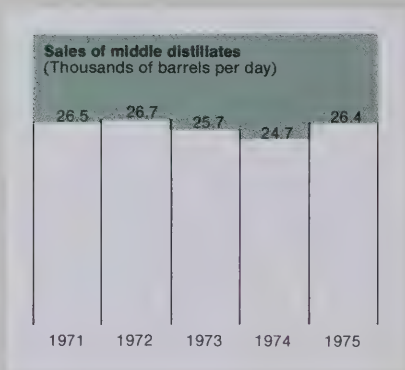
Where does the money go?

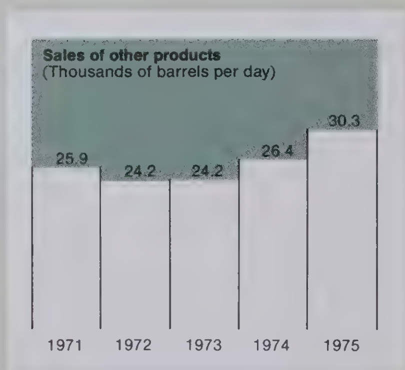
In the summer of 1975, the Government of Ontario froze the prices of petroleum products for nearly 4½ months despite the fact that the cost of crude oil had risen by $1.50 per barrel. This intervention deprived the Company of an estimated $8 million of revenue.

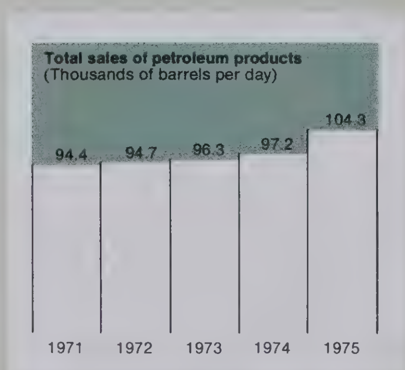
The Company's service station rehabilitation program was a major feature of retailing activities in 1975. This program, by greatly improving the appearance of many of the smaller stations, has proven extremely popular with dealers and customers alike.

The Eints Plan, named for a recently-retired drafting engineer, enables dealers to undertake architectural renovations at their stations at minimum cost and with minimum interruption of business. By year end more than 125 had done so. Starting with a sketch or photograph of the existing station, Eric Eints provides conceptual drawings and blueprints from which the dealer may renovate his premises to achieve a contemporary BP look, using local suppliers and contractors.









Marketing
(continued)

The number of service stations owned and operated by dealers now represents nearly 60% of BP's outlets. Even within the high volume self-service segment, nearly one in three outlets is run by an independent businessman. This practical encouragement of individual entrepreneurs contrasts sharply with the sometimes voiced opinion that oil companies are downgrading their dealer relationships.

Special training and incentive programs for dealers operating outlets leased from BP—some 30% of the total network—continued to improve the dealers' overall competence and earnings.

Particular efforts were made to promote the sale of motor oils by means of a dealer education program. This resulted in a 5.9% increase in sales over the previous year, despite the fact that sales of motor oils by the industry as a whole in Ontario and Quebec declined by 4.7%.

The number of outlets offering unleaded gasoline was increased during 1975 in response to the growing demand for this product.

A program of consolidating smaller agencies and developing larger new ones continued to increase sales efficiency in the rural market. The number of bulk plants has been reduced by 25% over a three-year period, with the result that the average throughput per plant has grown by nearly 40%.

Computerization and improved distribution techniques further increased the efficiency of domestic fuel oil operations.

BP supplied aviation products to six major international airlines through Canada's three largest airports, including Montreal Mirabel which opened in November.

As an official sponsor of the 1976 Olympic Games, BP Canada sponsored the COJO film "Montreal, an Olympic City"—seen here being filmed during construction of the main stadium. Carrying integral credits to the Company, this film has been distributed by the Olympic organization for theatre and television use.

Corporate Affairs

Throughout 1975, the operations and finances of the oil industry continued in the headlines as the two levels of government vied with each other and amongst themselves to obtain what they conceived to be their rightful share of oil and gas revenues. Public interest, as expressed both through the news media and directly to the Company, heightened with the growing realization that Canada too, had an energy problem and that the discovery and development of new sources of energy necessitated the investment of funds far in excess of those being generated by the industry.

In pursuance of the Quebec Government's objectives, BP continued to expand its use of the French language in that province, both within and outside the Company.

Donations were made to some 300 organizations during the year. Growing emphasis was placed on the provision of scholarships at educational establishments. Seventeen new scholarships were created at universities for students drawn from the whole area of BP's operations.

BP's Vice-President, Marketing, was elected chairman of the Quebec Safety League which made special efforts to impress on secondary school students the rules of highway safety. The Company's support of the Safety League was increased to enable it to reach students via bi-monthly information sheets.

In support of the 1976 Olympic Games, BP Canada sponsored the production by the Organizing Committee of the film *Montreal, an Olympic City*. This film is available in English and French versions and is being distributed for television and cinema use inside and outside Canada. BP has also made it available for group showings through the Company's film service.

A new bilingual film catalogue of nearly 200 titles was prepared, for use by universities, high schools, clubs and associations in the three provinces where the Company has its major operations. During 1975 BP films reached an audience of nearly 900,000 through such group showings and were seen by a further 125,000 in commercial cinemas in Canada.

Environmental Protection

A BP Canada contingency plan for major oil spills was developed in 1975. This stresses the importance of preventing spills and provides for immediate action by Company personnel in any situation where BP products or property are involved, whether or not liability may be thought to exist.

To maintain both BP refineries' enviable safety records, constant vigilance and training is needed. In this simulation, Trafalgar operators approach a burning column in their training area, using specialized equipment to extinguish the blaze.

At Montreal Refinery a new and comparatively inexpensive form of floating roof has been installed on an experimental basis in a large products storage tank. If its performance lives up to expectations in reducing the release of vapors to the atmosphere, it will be adopted on a substantial scale.

Special studies were carried out at car wash outlets on means for reducing noise levels and for improving the quality of water discharged to municipal sewer systems.

Five BP Vikoma Seapacks, for use in containing oil spills in open water, were supplied to the Coast Guard. The Komara, a new lightweight oil skimmer for use in ports and inland waterways, generated considerable interest when it was demonstrated at Trafalgar Refinery in November to government and industry representatives.

In all segments of the Company's operations, increasing amounts of time and effort are being devoted to studying actual and proposed environmental legislation and to consultation with the relevant authorities.

Financial Review and Financial Statements

Consolidated net income for 1975 was $30.5 million or $1.45 per common share, a decrease of 23% from the comparative 1974 earnings of $39.6 million.

The consolidated net income represents a rate of return on average capital employed of 8.4% compared to 11.5% in 1974.

During 1975, a change in accounting was made whereby the company's own production of crude oil is shown as a deduction from revenue from sales and services and the related intra company profit is eliminated from inventories. The 1974 comparative statements have been restated for this change and as a result, consolidated retained earnings at January 1, 1974 decreased by $2.9 million, net income for the year ended December 31, 1975 decreased by $0.7 million and marginally increased in 1974.

Revenue in 1975 was up by 19.0% to $493.1 million largely due to higher prices for petroleum products and natural gas. Expenses rose by 27.7% to $438.9 million primarily due to the higher cost of crude oil and increased costs of salaries, wages, benefits and materials.

Federal sales, excise, municipal and other taxes, royalties and provision for income taxes totalled $113.1 million, an increase of 42.4%. Provincial royalties increased by 16% but provision for income taxes of $23.8 million was $7.6 million less than in the previous year. Direct taxes on petroleum products collected on behalf of provincial governments amounted to $122.8 million, an increase of $7.6 million over 1974.

Working capital rose by $16.5 million during the year to $110.4 million. This was principally accounted for by the increased value of inventories and a reduction in accounts payable, primarily due to the resumption of normal 30-day terms for purchases of imported crude oil from an affiliated company.

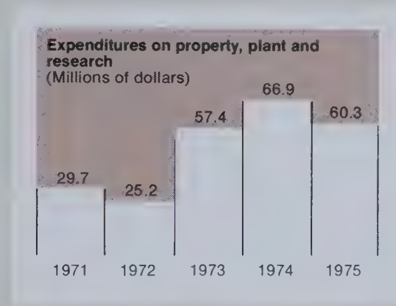
Funds derived from operations and from the sale of property, plant and equipment, together with the amount contributed by Columbia Gas Development of Canada Ltd. (see Note 5 to the financial statements) were more than adequate to cover requirements during the year.

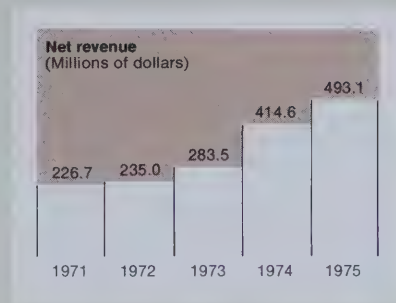
Total expenditures in 1975 on property, plant and equipment and research and mineral exploration costs of $60.3 million was $6.6 million less than in 1974. The major reduction in refinery expenditures was due to the completion of the Trafalgar Refinery expansion project. Expenditure by sectors was as follows:

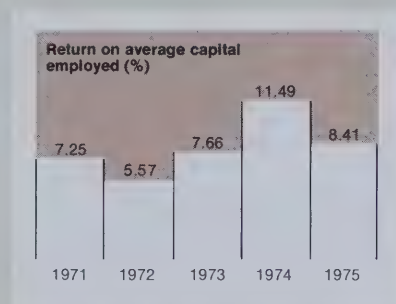
	1975	1974
	(millions of dollars)	
Exploration	$29.3	$20.1
Development	7.2	3.8
Marketing	16.5	16.5
Refining	7.3	26.5
	$60.3	$66.9

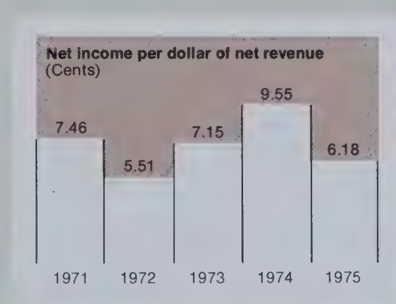
Consolidated net income, restated on the basis of the guidelines issued by the Accounting Research Committee of the Canadian Institute of Chartered Accountants to deal with accounting for the effects of changes in the general purchasing power of money, was $16.9 million or $0.80 per common share. This compares to $30.5 million or $1.45 per common share reported on the basis of historical cost.

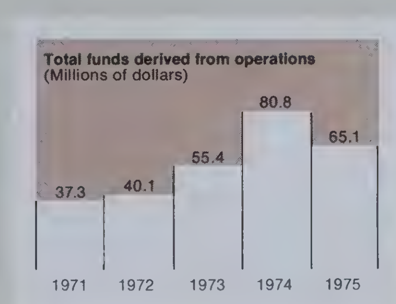
Similarly the return on average capital employed after restatement is computed at 3.8% as against 8.4% on an historical cost basis.











Consolidated Statement of Income
for the year ended December 31, 1975

BP Canada Limited and Subsidiaries

	1975	1974
	(thousands of dollars)	
Revenue:		
Gross sales and services (including crude oil sales from own production)	$550,465	$464,808
Less:		
Federal sales taxes	(25,276)	(19,257)
Crude oil sales from own production	(36,838)	(36,515)
Net sales and services	488,351	409,036
Income from investments	4,798	5,514
	493,149	414,550
Expenses:		
Purchases of crude oil, products and merchandise	277,837	205,534
Operating and administration	126,442	105,410
Depreciation	16,946	13,714
Depletion	7,980	8,597
Research and mineral exploration costs written off	3,149	3,271
Interest and discount on long term debt	6,515	7,050
	438,869	343,576
Income before income taxes	54,280	70,974
Income taxes	23,800	31,400
Net income for the year	$ 30,480	$ 39,574
Net income per common share	$1.45	$1.88

See accompanying notes

Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1975

BP Canada Limited and Subsidiaries

	1975	1974
	(thousands of dollars)	
Funds derived from:		
Net income for the year	$ 30,480	$ 39,574
Add (deduct) items not resulting in a flow of funds in the current year:		
Depreciation and depletion	24,926	22,311
Deferred income taxes	12,900	21,800
Profit on redemption of long term debt	(478)	(196)
Other	(2,768)	(2,655)
Total funds derived from operations	65,060	80,834
Proceeds on sale of property, plant and equipment	8,823	9,328
Net decrease in investments and advances	4,238	20,797
Issue of capital stock	26	5
Long term borrowing	155	784
Total funds derived	78,302	111,748
Funds applied to:		
Expenditures for property, plant and equipment	60,264	66,870
Less:		
Contribution by Columbia Gas Development of Canada Ltd. (note 5)	(13,657)	(9,381)
Research and mineral exploration costs written off	(3,149)	(3,271)
	43,458	54,218
Net repayments of gas supply contract advances	113	747
Repayments of long term debt	9,753	8,590
Dividends	8,474	5,955
Redemption of preference shares	39	20
Total funds applied	61,837	69,530
Increase in working capital	16,465	42,218
Working capital, beginning of the year	93,921	51,703
Working capital, end of the year	$110,386	$ 93,921

See accompanying notes

Consolidated Balance Sheet
December 31, 1975

BP Canada Limited and Subsidiaries
(Incorporated under the laws of Ontario)

Assets	1975	1974
	(thousands of dollars)	
Current:		
Cash and short term investments, at cost which approximates market	$ 32,414	$ 46,363
Accounts receivable (note 3)	98,941	107,552
Inventory, valued at the lower of cost and market	78,922	66,866
Prepaid expenses and deposits	1,806	1,942
Total current assets	212,083	222,723
Investments and advances:		
Investment of proceeds of debenture issue	—	5,000
Investments in other companies (note 4)	4,292	4,217
Mortgages, loans and long term deposits	5,014	4,433
Lease payments, at amortized cost	551	690
Deferred charges, at cost less amortization	727	866
Total investments and advances	10,584	15,206
Property, plant and equipment, at cost less accumulated depreciation and depletion (note 5)	329,833	316,994
	$552,500	$554,923

On behalf of the Board:

D. F. Mitchell, Director

M. Sauvé, Director

See accompanying notes

Liabilities and Shareholders' Equity	1975	1974
	(thousands of dollars)	
Current:		
Notes payable	$ 1,100	$ 1,800
Accounts payable and accrued liabilities (note 6)	80,536	102,652
Income and other taxes payable	17,843	21,687
Dividends payable	741	597
Current maturities of long term debt	1,299	1,829
Deferred production income	178	237
Total current liabilities	101,697	128,802
Gas supply contract advances	443	556
Long term debt (note 7)	84,436	94,512
Deferred income taxes	56,100	43,200
Shareholders' equity:		
Capital stock (note 8)	185,361	185,396
Retained earnings	124,463	102,457
	309,824	287,853
	$552,500	$554,923

See accompanying notes

Consolidated Statement of Retained Earnings
for the year ended December 31, 1975

BP Canada Limited and Subsidiaries

	1975	1974
	(thousands of dollars)	
Balance, beginning of the year		
As previously reported	$105,285	$ 71,729
Deduct—		
Cumulative effect of accounting change (note 2)	(2,828)	(2,891)
As restated	102,457	68,838
Net income for the year	30,480	39,574
	132,937	108,412
Dividends:		
Common shares	8,404	5,882
Preference shares	70	73
	(8,474)	(5,955)
Balance, end of the year	$124,463	$102,457

See accompanying notes

Auditors' Report

To the Shareholders of BP Canada Limited:

We have examined the consolidated balance sheet of BP Canada Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for crude oil production described in note 2.

Montreal, Canada
March 1, 1976

Clarkson, Gordon & Co.
Chartered Accountants

Notes to Consolidated Financial Statements
December 31, 1975

1. Accounting policies

The principal accounting policies are summarized below:

Investment in subsidiary companies—

The consolidated financial statements include the accounts of subsidiary companies, all of which are wholly-owned. When a business is purchased, assets including goodwill and liabilities are recorded at their fair values at the date of acquisition and depreciation, depletion and amortization from that date are based on these values.

Financing costs during construction—

Interest on debt incurred to finance the construction of fixed assets is charged to income during the construction period.

Property, plant and equipment; depreciation and depletion—

Marketing, refining and production assets—

Property, plant and equipment includes the cost of land and facilities and of significant improvements thereto. Generally, depreciation is provided on assets on a straight line basis over their estimated useful lives which are as follows:

	Number of years		
	Refining	Marketing	Production
Buildings	30 to 50	10 to 20	
Tanks and pipelines	30	10 to 20	15
Equipment	20	10	4 to 12
Automotive equipment	5	5	5

Exploration and development costs—

The full cost method of accounting is used, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized, whether related to productive or non-productive properties. Proceeds received from the disposal of properties are credited against the costs, and the net costs, except as noted below, are amortized by the composite unit of production method based on total estimated proven reserves. Separate cost centres have been established for the Arctic and East Coast offshore activities and costs accumulated in these cost centres are amortized on a straight line basis over the period during which activity in each area is expected to continue, presently estimated to be until 1984. Costs related to mineral exploration, excluding property acquisition costs which are amortized over the terms of the related leases, are charged to income in the year incurred.

Research costs—

Research costs associated with the production of hydrocarbons from the tar sands and heavy oil deposits in central Alberta are charged to income in the year incurred.

(continued)

Notes to Consolidated Financial Statements
December 31, 1975
(continued)

1. Accounting policies (continued)

Inventories—
Inventories of crude oil, refined products and merchandise are valued at the lower of cost (determined on a first-in first-out basis, which for manufactured refined product is based on the average cost of manufacture for the year) and net realizable value.

Sales and services—
Sales and road taxes collected for the provincial governments have been excluded from sales and services revenue.

The company purchases large volumes of crude oil from other producers, and sells to other companies in the oil industry whatever of its own net production and purchases is not required for its own refineries. The company's practice is to apply crude oil sales to reduce crude oil purchases and thus exclude such transactions from both net sales and services and costs. The income statement, however, shows the company's own production of crude oil at market value as a deduction from gross sales and services, a presentation adopted in 1975 (see note 2).

Income taxes—
The company provides for income taxes on the tax allocation basis of accounting under which the provision for income taxes is computed on the basis of income reported in the financial statements rather than that reported in the companies' tax returns. Taxes provided on income deferred for tax purposes by claiming deductions greater than the related charges in the accounts are reflected as deferred income taxes in the consolidated balance sheet.

Oil import compensation program—
Under the oil import compensation program the federal government agreed, effective January 1, 1974, to compensate eligible importers for certain cost increases with respect to imported crude oil for the manufacture of petroleum products consumed in Canada, provided the importing company maintained prices for such products at the level suggested by the government. Compensation received or recoverable under this program is reflected as a reduction of the cost of purchased crude oil.

2. Accounting change

As discussed in note 1, during the year the company made a change in accounting to show the company's own production of crude oil as a deduction from sales and services revenue and to eliminate from inventories the intra company profit. The 1974 comparative statements have been restated for this change.

As a result of this change consolidated retained earnings at January 1, 1974 were decreased by $2,891,000, and net income for the year ended December 31, 1974 increased by $63,000 and for the 1975 year decreased by $718,000.

3. Accounts receivable

	1975	1974
	(thousands of dollars)	
Trade accounts receivable	$ 84,239	$ 75,556
Miscellaneous accounts due from affiliated companies	46	15
Recoverable under Oil Import Compensation Program	14,656	31,981
	$ 98,941	$107,552

4. Investments in other companies

	1975	1974
	(thousands of dollars)	
Shares of effectively controlled companies, at equity	$ 58	$ 52
Investments in other companies, at cost:		
Not quoted	3,347	3,278
Quoted (market value 1975—$1,342,000 1974—$ 739,000)	887	887
	$ 4,292	$ 4,217

5. Property, plant and equipment

	1975			1974
	Investment at cost	Accumulated depreciation and depletion	Net investment	Net investment
	(thousands of dollars)			
Exploration and production	$240,515	$110,700*	$129,815	$121,242
Refining	169,625	67,696	101,929	102,077
Marketing	159,189	61,100	98,089	93,675
	$569,329	$239,496	$329,833	$316,994

**includes depletion of $85,373,000*

Under an agreement with Columbia Gas Development of Canada Ltd., Columbia has contributed $25,000,000 for an exploration program on the company's acreage off the coast of Newfoundland to earn 40% of the company's interest in that acreage. The portion of the $25,000,000 contributed during the year is shown in the consolidated statement of changes in financial position. Subsequent expenditures under this program are being shared with Columbia in proportion to their interest in the lands; only the company's 60% share is included in the consolidated financial statements.

6. Accounts payable and accrued liabilities

	1975	1974
	(thousands of dollars)	
Accounts payable trade and accrued liabilities	$52,779	$ 61,517
Due to affiliated companies for purchases of crude and product	19,391	38,567
Due to parent company—dividend	1,377	1,102
—other	6,989	1,466
	$80,536	$102,652

Notes to Consolidated Financial Statements
December 31, 1975
(continued)

7. Long term debt

	1975	1974
	(thousands of dollars)	
BP Canada Limited:		
6% Sterling loan maturing in 1982	$ 7,311	$ 7,798
7¾% U.S. dollar Series A debentures, maturing February 15, 1993	24,894	24,894
8¼% Series B debentures, maturing February 15, 1993	25,000	25,000
Other long term debt	150	300
Subsidiaries of BP Canada Limited:		
BP Oil Limited—		
5½% first mortgage sinking fund bonds Series A, maturing March 15, 1979	5,695	5,713
5¾% sinking fund debentures Series A, maturing October 1, 1986	22,222	23,831
Mortgage loans payable	405	532
5¾% notes due 1975	—	1,000
Other—		
Mortgage loans payable	58	81
Subsidiary of BP Oil Limited:		
BP Exploration Canada Limited—		
Bank loans secured by certain oil and gas properties—		
6¼% Series B notes	—	7,192
	85,735	96,341
Less current maturities included in current liabilities	1,299	1,829
	$84,436	$94,512

Repayments and sinking fund requirements during the four years subsequent to December 31, 1976 are as follows:

1977—$4,237,000
1978—$5,055,000
1979—$8,510,000
1980—$5,002,000

8. Capital stock

	1975	1974
	(thousands of dollars)	
Authorized:		
13,795 5% cumulative redeemable sinking fund preference shares of $100 par value each redeemable for $103 or at par for sinking fund purposes (14,412 in 1974)		
30,000,000 common shares without par value		
Issued:		
13,795 5% cumulative redeemable sinking fund preference shares (14,412 in 1974)	$ 1,380	$ 1,441
21,011,023.8 common shares (21,007,823.8 in 1974)	183,981	183,955
	$185,361	$185,396

At December 31, 1975 options were outstanding to employees to purchase 3,600 common shares at prices ranging from $13.17½ to $13.27½ exercisable to January 25, 1976 and to officers and employees to purchase 302,000 common shares at a price of $11.47½ exercisable annually to June 9, 1980. Options with respect to 3,200 common shares were exercised during the year at a price of $8.32½ per share.

The company redeemed for cash 617 preference shares during the year.

Notes to Consolidated Financial Statements
December 31, 1975
(continued)

9. Income taxes

The income tax provision in 1975 has been reduced by claiming statutory depletion; the depletion bank remaining at December 31, 1975 was $11,700,000, which may be used to reduce taxable income in future years by $1 for every $3 remaining in the bank, or by a total of $3,900,000.

10. Pension plans

Based on the latest actuarial valuation of the pension plans as at December 31, 1974 and the payment in 1975 of the indicated experience deficiency, all liabilities were fully funded by assets held by the trustees.

11. Commitments and subsequent events

Commitments in the ordinary course of business for the acquisition or construction of fixed assets are not significant in relation to net assets.

Total rentals under leases expiring more than three years after the year end amounted to approximately $26,000,000 of which $2,500,000 is payable in 1976.

12. Other statutory information

The aggregate direct remuneration of the directors and senior officers of the company was $772,000 in 1975.

The principal operating subsidiaries of the company are BP Oil Limited and BP Exploration Canada Limited.

13. Anti-inflation program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is required to comply with controls on prices, profit margins (other than those in respect of crude oil and natural gas which are controlled under the Petroleum Administration Act), employee compensation and dividends paid to shareholders. The effects on the company of the regulations on prices and profit margins are not yet clear owing to uncertainties as to interpretation and the need to develop appropriate data from the company's records. At the present time dividends to the company's common shareholders are restricted to an annual rate of $0.40 per share.

14. Statement presentation

The 1974 comparative figures have been restated to conform to the presentation adopted in the current year.

Five year financial summary

(Dollars in thousands except per share amounts)

BP Canada Limited and Subsidiaries

	1975	1974	1973	1972	1971
Balance sheet					
Current assets	$212,083	$222,723	$113,006	$ 83,196	$ 76,918
Current liabilities	101,697	128,802	61,303	54,796	60,165
Working Capital	110,386	93,921	51,703	28,400	16,753
Investments and advances	10,584	15,206	36,385	12,252	14,091
Property, plant and equipment—net	329,833	316,994	291,392	263,326	265,188
Capital employed	450,803	426,121	379,480	303,978	296,032
Deduct: Long term debt	84,436	94,512	102,515	56,170	65,184
Other non-current liabilities	56,543	43,756	22,703	10,280	2,283
Shareholders' equity	309,824	287,853	254,262	237,528	228,565
Per common share	$14.68	$13.63	$12.03	$11.24	$10.81
Income					
Net revenue	493,149	414,550	283,475	235,049	226,718
Expenses	438,869	343,576	249,731	213,214	207,412
Income before income taxes and extraordinary items	54,280	70,974	33,744	21,835	19,306
Income taxes	23,800	31,400	12,800	8,300	6,900
Income before extraordinary items	30,480	39,574	20,944	13,535	12,406
Extraordinary items					
Income tax credit	—	—	—	—	5,263
Other debits	—	—	(684)	(576)	(750)
Net income for the year	$ 30,480	$ 39,574	$ 20,260	$ 12,959	$ 16,919
Per common share					
Income before extraordinary items	$1.45	$1.88	$0.99	$0.64	$0.59
Extraordinary items	—	—	(.03)	(.03)	.21
Net income for the year	$1.45	$1.88	$0.96	$0.61	$0.80
Total funds derived from operations	$ 65,060	$ 80,834	$ 55,448	$ 40,070	$ 37,348

Five year operating summary

(Barrels per calendar day except natural gas)

	1975	1974	1973	1972	1971
Refined product sales	104,310	97,164	96,253	94,680	94,400
Crude oil processed at refineries	121,693	106,921	104,323	98,743	99,079
Gross sales of crude oil and natural gas liquids	22,827	28,492	32,037	28,418	25,789
Gross sales of natural gas (thousands of cubic feet per day)	100,945	101,043	102,167	97,274	89,815

About BP Canada

BP Canada is an integrated oil company engaged in exploration for hydrocarbons and other minerals, the production of crude oil and natural gas, and the refining and marketing of petroleum products. It has some 2,700 full-time employees and nearly 8,000 shareholders in Canada. 34.5% of the common shares are held by the public and are traded on the Montreal, Toronto and Vancouver stock exchanges.

BP's principal exploration activities are in Western Canada, the Canadian Arctic (including the Mackenzie River basin and the Yukon Territory) and the continental shelf off Newfoundland & Labrador.

The Company's refineries at Oakville, Ontario (Trafalgar Refinery) and Ville d'Anjou, Quebec (Montreal Refinery) can process more than 150,000 barrels of crude oil per day.

A wide range of refined products is marketed throughout Ontario and Quebec. An extensive BP transportation and distribution network delivers these products to the industrial, agricultural, transportation and heating fuel markets, and to the motoring public through some 1,900 service stations.

For additional copies of this report or other information about BP in Canada and world-wide, please address BP Canada, Public Affairs Department, 1245 Sherbrooke Street West, Montreal, Quebec H3G 1G7.

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